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March 6, 2007

Jeff Hatch-Miller
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007-2996

RE: Docket No W-01303A-05-0405
W-01303A-05-0910

Dear Chairman Hatch-Miller:

I am writing to you concerning my letter of February 6, 2007. I have noticed that a number of letters and documents dated after mine have been logged into this docket but mine is still not available on your website. I am concerned that my letter did not reach you, so I am forwarding a copy of it.

I remain concerned that the water commodity rates set in this docket are having a deleterious impact on my company, primarily because of the High Usage Charge that is not cost-based. I now understand that your staff has reviewed Arizona-American Water Company's Arsenic Cost Recovery Mechanism (ACRM) and your staff recommends a $498.93 increase in my 6" monthly charge and a $0.4598/1,000 gallons increase in my commodity rate.

I emphasize the need to review the appropriateness of the High Usage Charge in light of a potential ACRM surcharge approval. The ACRM alone can be expected to cost my firm an additional $1,950 per month. I understand the need to pay cost-based increases. However, I would appreciate some form of response whether the ACC is reviewing the two non-cost-based surcharges set in this case.

Yours sincerely,

M.T.

Michael T. Surguine Vice President & General Manager
Sanctuary on Camelback Mountain

Arizona Corporation Commission
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cc: William A. Mundell, Commissioner
Mike Gleason, Commissioner
Kristin K. Mayes, Commissioner
Gary Pierce, Commissioner

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February 6, 2007

Jeff Hatch-Miller, Chairman
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007-2996

RE: Docket No. W-01303A-05-0405
W-01303A-05-0910

Dear Chairman Hatch-Miller:

I am writing to you with concerns over water rates in the Paradise Valley Water District, a division of the Arizona-American Water Company (Company). The new rates are having a deleterious impact on our commercial operations and financial health and I am having a difficult time understanding their reasonableness and the process in which they were set. My concerns start with the Notice.

The Notice was deficient. The notice that my office received in September 2005 read in relevant part,

> **"The Company's request would increase average 5/8-inch and 3/4-inch residential customers' base rates by approximately 9 percent.** The Company is also seeking the Commission's approval of: a public safety surcharge for investments by the Company related to improvement of fire flow facilities; an arsenic cost recovery mechanism for investments required by the Company to comply with federal water arsenic reduction requirements; and approval of a conservation surcharge that would be imposed for usage in the highest consumption block. The actual amount of the Company's proposed rate increase varies depending on the customer's usage and the zone in which the customer is located."

However, my company is facing an approximate 255 percent increase in water commodity rates or a $185,000 per year increase. The second tier for commercial rates was $1.46 before the rate increase but with the $0.10 base rate increase, $2.15 High Usage Surcharge, $1 Public Safety Surcharge, and the proposed $0.4788 Arsenic Cost Recovery Mechanism surcharge I am facing a commodity rate of $5.19 per 1,000 gallons.

Any reasonable person reading the Notice would have expected an approximate 9 percent increase in rates, depending on usage and zone according to the Notice. The Notice was deficient in that it might as well have ignored the 9 percent base rate increase and informed customers of a potential $2.15 increase from the High Usage

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Surcharge (HUS) and the potential $1.00 Public Safety Surcharge (PSS) which ***far*** exceed the published rate increase. One might have reasonably expected that these surcharge increases were even part of the 9 percent increase since they were not deemed important enough by the Notice to mention specifically. At least, one would have assumed that the surcharges were less than the 9 percent base rate increase because the surcharge amounts were apparently not significant enough dollar amounts to be mentioned. A Notice is not sufficient when it advertises a 9 percent increase but fails to mention the 200 percent plus increase from two surcharges. We would have intervened in the case had the surcharge levels been mentioned.

There are no effective tiers in the Commercial class for a resort so the High Usage Surcharge and Public Safety Surcharge are effectively a base rate increase. The commercial operations of a resort are such that the first tariff block of 0-400,000 is so low that it is irrelevant. Effectively, the Sanctuary, like any other resort of size, consumes enough water that it falls into the second and final tier for virtually all of its consumption. That is the tier onto which the PSS and HUS are being applied. Therefore, we have no possibility to avoid the surcharges by our conservation efforts (which I will address later). We would have to conserve about 90 percent of our required consumption to remain in the first tier. The HUS and PUS are, therefore, a base rate increase and they cannot serve as an incremental price signal for conservation.

The 255 percent commodity rate increase harms economic development. Resorts are the economic engine of our tourist economy and these new rates punish that engine. The Sanctuary draws many clients from all over the world who contribute to the local economy. Raising the cost of water will lead to higher prices and less competitiveness or a possible reduction in personnel (the rate increase is great enough to equal several full-time employment units). Neither solution is positive for the local economy. The multiplier effect of a Sanctuary visitor on the Scottsdale and Phoenix economies is significant. The Sanctuary's resort operations also provide significant revenue to the towns of Scottsdale and Paradise Valley so the negative impact of these surcharges could be felt in the commercial, employment, and municipal sectors of our local economy.

The Public Safety Surcharge is unfair to existing residents and commercial operations. I am told by my controller that the PSS is intended to cause surcharge payers to invest over the next four years or so enough to fund infrastructure that benefits all PVWD consumers over the next 40-50 years. I do not understand the fairness of front-loading the investment on existing customers to the benefit of future customers. This problem is very real for resorts because three resorts, Montelucia, Mountain Shadows, and The Ritz Carlton are currently or soon will be under construction. They will benefit from infrastructure paid for by the Sanctuary by the time they open. It seems a basic tenet of fairness that those who get the benefit should bear the cost, both in any given year and over the years. I would not have asked

PVWD customers to pay for fire flow capabilities that protect us before the Sanctuary was in business. I would ask for the same measure of fairness. The PSS should in some way be better spread out over time and across the customers who derive the benefit.

The High Usage Surcharge and Public Safety Surcharge are unfair to permanent residents and businesses to the benefit of winter visitors. The HUS and PSS are intended to cause consumers of the water commodity to pay for investment in fixed infrastructure that benefits permanent and seasonal visitors, yet the seasonal visitors will only pay their portion of that investment when they are here and actually consuming water. I would much more understand if fixed fire flow infrastructure were paid for by all those who benefited from the increased fire flow demands and whose properties require year-round fire protection, including seasonal visitors. This would best be accomplished in the fixed charge of bills rather than in the commodity charge. The current rate design favors out-of-state residents over local residents and voters.

The High Usage Surcharge defies transparency and accountability. My controller described to me how the Company filed voluminous testimony supporting its request for an \$0.11 increase from \$1.46 to \$1.57 in the second tier commodity rate (see Direct Testimony of Ronald L. Kozoman, page 8 of 28 for a summary of the filed rates) along with the other rates and charges. My controller then pointed out that the HUS was originally proposed to be \$2.00 and \$5.00 but it occupied only about a page and one-half of testimony (see Direct Testimony of David P. Stephenson pages 34 and 35 of 37). Moreover, I find out in retrospect that ***the HUS has no calculations behind it nor is not based on any cost of service***. I fail to understand how your staff can file volumes of rebuttal testimony analyzing the reasonableness of an \$0.11 requested increase through audits and engineering analyses but fail to criticize what turned out to be a \$2.15 non-cost-of-service-based and apparently arbitrary surcharge. We are fully prepared to pay the cost of our water service and we understand cost increases but we do not understand arbitrary surcharges of this magnitude.

The Sanctuary is continuously conserving water but it has minimum water needs to support a resort operation. The Sanctuary is a business noted for its high architectural design, a key element of our business concept. When you visit the Sanctuary you will notice the extensive xeriscape on the property. In fact of the Sanctuary's 53 acres constituting 2,308,860 square feet only 13,503 of it is in grass, i.e. **less than 0.58 percent of the property is in grass**. We must have shade trees and a certain amount of irrigated landscape but that amount is minimized to the extent consistent with the design requirements of our business concept, the very concept that draws visitors to Scottsdale and Phoenix and is part of the economic engine of tourism. We also implemented, long before this rate increase, water conservation measures such as minimization of grassed area. However, we simply cannot force patrons not to consume water during their vacation or business trips and we must be good stewards of the landscape architecture. We have certain minimum water requirements that far exceed the 400,000 second tier block if the business is to survive and we feel punished by these new rates simply because of our size. Economic success should not be punished.

Our Conservation efforts are being penalized. The new rate structure penalizes our conservation efforts to date and would penalize even the most monumental of conservation efforts. Had the Sanctuary been able to reduce consumption by 20 percent, a monumental effort, our annual bill under the new rate structure would still have risen from about $77,000 per year to $208,000 per year, or a 168 percent increase in cost. As a manager, I simply do not understand a water rate structure that would penalize what would otherwise be a monumental conservation effort from year to year.

Relief requested. I am requesting some process to restructure the PSS and HUS which do not appear just and reasonable surcharges. I appeal to your common sense, sensitivity to an important economic sector, and your desire for just and reasonable rates. The $2.15 HUS in particular appears arbitrary and not to be based on any cost of service calculations or principles yet it is greater than the cost of service ($1.56 without the ACRM) and it appears indefinite in how long it will be applied. At least the PSS terminates when the Sanctuary has paid a significant portion of the fire flow infrastructure that benefits all residential & commercial customers and its future resort competitors, but we object to the accelerated nature of this surcharge as well. The notice in this case was insufficient in that it drew attention to a 9 percent rate increase but it failed to mention the approximate 200 plus percent increase from the two surcharges.

The Sanctuary is an economic engine of tourism and it is being unfairly punished by these new rates, particularly by the surcharges. At the very least, a new class of service for resorts should be tariffed that recognizes the practicalities of this particular industry and a unique customer class.

Yours sincerely,

M.T.

Michael T. Surguine, Vice President & General Manager
Sanctuary on Camelback Mountain

cc: William A. Mundell, Commissioner
Mike Gleason, Commissioner
Kristin K. Mayes, Commissioner
Gary Pierce, Commissioner